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Approved For Release 2005/04/22 : CIA-RDP86T00608R000600050042-6

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5-08322

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24 April 1975

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MEMORANDUM FOR: Dr. Keith Jay
Chief, Trade and Payments Division
Office of Policy Development & Analysis
Bureau for Program and Policy Coordination
Agency for International Development

SUBJECT : LDC Balance of Payments 1973-1975

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The quality and completeness of the draft report should be commended. We are well aware and appreciative of the effort required in compiling the data and analysing the trends. While we may differ on some specific numbers and definitions, we concur with the thrust of the draft. Our comments are attached. If you need any further information, please contact

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Attachment:
As stated above

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USAID review completed

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Oil-Importing LDC Balance of Payments, 1973-75

We support with minor reservations the basic conclusions of the draft report including:

- . Current account deficit for 1974 on the order of \$18.4 billion for the oil-importing LDCs under review,
- . Estimated average real growth rate of 3% last year, as we projected last January,
- . The need to redefine the "most seriously affected" countries to reflect current economic developments,
- . The "unfinanced" deficit of the MSAs estimated at approximately \$1.6 billion, remarkably close to our intra-agency projections reached last summer.

Our own country-by-country review of the oil-importing developing countries in the study generated different numbers for only some half-dozen countries. In the aggregate, these changes are not significantly different

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from the original draft. For purposes of comparison, I have retabulated the data as shown in Table 1. The main conclusions are:

- . We believe the trade deficit of the LDCs increased to \$19.3 billion in 1974, a bit higher than the draft estimates. This reflects in part a more pessimistic reading of Brazil's trade balance.
- . The current account deficit remains at \$18.4 billion due to a larger services and transfer inflow offsetting the larger trade deficit. We believe LDC services and transfers remained positive in 1974 but will slip a little this year. While most poorer LDCs usually show a negative services balance, strong services and transfers inflows to Korea, Philippines, Turkey, Morocco, and Thailand kept the aggregate balance positive. Moreover, we believe Brazil incurred an outflow of only \$800 million in 1974 rather than the draft figure of \$2.3 billion; this difference accounts for much of the disparity of the estimates.

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- . Long term capital flows -- an elusive element to define and estimate -- correspond closely to our estimate. We suspect, however, the flow may weaken this year rather than hold steady as projected in the draft study.
- . Overall LDC basic balance deteriorated sharply in 1974 to approximately \$4.0 billion.

Our review of the "Most Seriously Affected" developing countries parallels the draft estimate and we propose no changes. Table 2 retabulates the MSA Balance of Payments estimates. We agree with the need to redefine these countries to bring them more in line with current developments and particularly appreciate the discussion of this issue in the draft. We would suggest deleting, however, Cambodia and Laos for reasons discussed by phone. Table 2 presents the unified balance of payments for the MSAs as adjusted. The basic balance of the MSAs is little changed in 1974 (approximately \$1.6 billion) but worsens more severely in 1975.

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Table 1

Less Developed Countries: Balance of Payments

	Billions US \$					
	AID			CIA		
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Exports, f.o.b.	32.8	43.9	50.2	32.8	44.2	50.2
Imports, c.i.f.	-37.8	-62.1	-69.1	-38.6	-63.5	-69.1
Trade balance	-5.0	-18.2	-18.9	-5.8	-19.3	-18.9
Services and transfers	.6	-.2	-.6	.8	.8	.5
Current balance	-4.4	-18.4	-19.5	-5.0	-18.4	-18.4
Long term capital	9.0	14.3	14.4	9.2	14.4	13.8
Basic balance	4.6	-4.1	-5.0	4.2	-4.0	-4.6

Note: May not add due to rounding.

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Table 2

Less Developed Countries: Balance of Payments

	Billions US \$					
	Most Seriously Affected			Adjusted MSA a/		
	1973	1974	1975	1973	1974	1975
Exports, f.o.b.	9.6	12.1	13.3	10.9	13.9	14.5
Imports, c.i.f.	-11.4	-17.1	-18.8	-12.6	-18.9	-19.7
Trade balance	-1.8	-5.0	-5.5	-1.8	-5.0	-5.3
Services and transfers	-.3	-.4	-.5	-.7	-.3	-1.1
Current balance	-2.1	-5.4	-6.0	-2.5	-5.3	-6.4
Long term capital	2.3	3.8	4.3	2.3	3.8	4.3
Basic balance	.2	-1.6	-1.7	-.2	-1.5	-2.1

a. Excludes: Cambodia, Ethiopia, Guyana, Laos, Rwanda, Yemen Arab Republic.
Includes: Burundi, Chile, Costa Rica.

Note: May not add due to rounding.

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